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## What is Economics?

Economics is the study of how a society uses its resources to satisfy its wants and needs. What does that mean? Consider the following three scenes. First, a household works together to do the chores. They cut wood for the fire place, cook meals, go to the store to buy food, and rent movies at the local video store.

Second, the managers of a large firm are deciding to produce a new product for line of electronics. They are making decisions on their best place to put their advertising dollars, either online or in traditional television commercials.

Third, law makers in Washington D.C. are deciding how to spend federal money. Should they spend money on preschool programs for minority children, or should they invest in a new military weapon system that could make the country safer? Additionally, how much money should the government spend on health care or what controls should be placed on the internet?

All of these questions are about economics.

The first question that comes to mind is why don't we fund them all? We would if we could. But we cannot. This brings us to our first major term in economics:

**Scarcity**- all resources are limited and therefore are scarce. Everyone cannot have everything they want. There is not enough stuff to go around.

To decide how funds get allocated we need to look at our **wants** and **needs**. These are our next important terms. **Needs** are our basic needs to survive, food, clothes, and shelter. **Wants**, put simply, are everything else and they are unlimited. I want a new car, new mp3 player, or a new house. I don't need any of them to survive.

**Economics** is the study of how we satisfy our wants and needs with the limited resources we have.

Finally, what are the resources that we have to use to satisfy our wants and needs? There are three basic resources known as the factors of production.

**Land**- this refers to all natural resources used to produce **goods** and **services**. This includes crops that are grown on a land, minerals that are mined from land and rent that is paid to an owner of land for its use.

**Goods** and **services** are the things that we buy like mp3 players or hair cuts. A **good** is a physical thing you can hold a **service** is some thing that gets used up right after it is purchased.

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**Labor**- this is the effort that an individual person puts into making a good or service. This for this effort the person is paid a wage. Labor includes factory workers, medical personal, and teachers. They all provide their labor for a wage.

**Capital**- this is anything that is used to produce other goods and services. If you make cars you need machines to make the metal that is used in the cars. It is also the truck that drives the cars to the dealer who sells them, and it is the building that the cars are made in. All of these are the resource known as capital.

Now that we know what economics is, why do we study it?

We study economics for two reasons. First, we want to be good consumers. Since our resources are limited we have to make choices. We can only buy a limited amount of goods and services with our limited income right? So we study economics to be good **consumers**.

**Consumers** are the people in an economy that purchase goods and services.

We also study economics to be good **citizens**.

**Citizens** are the people in a country. In a Republic Democracy like the United States of America they are also the ones who hold the political power to elect new governments.

Economics affects us as a citizen through our voting decisions. If we are in agreement with government policies then we should support them by voting in their favor. On the other hand, if we do not like how the government is spending money they we have a responsibility to vote the out of office.

Let us now look back at our three scenes from the beginning of the lesson. What factors of production do they have to use? One or more of the family members will work for a wage, which is labor, they are cutting wood to use for heat, that's land, and anything they use to cut the wood is capital. They are using all of the factors of production.

What about the business? What decisions do they have to make to invest in a new product? Since, like all sectors of society, their resources are scarce, what do they need to do to fund the development of a new product? They need to take resources, land, labor, or capital form something else they make, right? They can use profits to fund their research, or they can spend less on wages to produce other goods.

How do they decide where to advertise? They do not have unlimited resources to advertise so where do they spend their money? It all depends on the product. If they are making a product that can record play digital music on a small device,

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you would probably want to advertise on the internet. If it is an alarm clock that is really loud for people who take their hearing aid out at night. That is probably an older population that does not use the internet as much, so you need to advertise on television.

Finally, what about government? Where do they get their money to spend? All the money the government spends is from its people in the form of taxes. Like the other parts of our economy their resource are also limited. They make decisions on spending on a larger scale than families or businesses, but they cannot fund everything. The government must decide what programs to fund. Do they spend more money on military projects, or should they spend money on preschool programs for underprivileged children? Both are beneficial to the citizens. But which one gets the money?

The answer to all of the scenes on where do the resources go is, what gives the most benefit to each sector. If it is expensive to heat your house in the winter then spending resources on the production of wood for burning is in your best interest. If you are a business you want to make a profit, so you advertise to the audience that will buy the most products. Finally, the government wants one thing, to stay in power and to do that they must make decisions on spending to have people vote for them in the next election.

We study economics for a variety of reasons. We want to have good information as consumers to make sure we spend our limited resources in a good way. As a citizen we want to make sure the government is spending our money in a way that we agree with. If we don't agree with them then we can exercise our right as a citizen and vote for change.